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Message Text

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45
ACTION EUR-25

INFO OCT-01 ISO-00 ABF-01 OMB-01 TRSE-00 FRB-02 NEA-10

CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10

PA-04 RSC-01 PRS-01 SPC-03 SS-20 USIA-15 ACDA-19

IO-14 DRC-01 CIEP-02 COME-00 STR-08 /161 W
---------- 057525
R 071556Z NOV 73
FM AMEMBASSY BERN
TO SECSTATE WASHDC 8375
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL ZURICH

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E.O. 11652: N/A
TAGS: EFIN, SZ
SUBJECT: SWISS FINANCIAL DEVELOPMENTS

SUMMARY. SWISS BANKERS AND GOVERNMENT OFFICIALS WELCOME RECENT STRENGTHENING OF DOLLAR BUT ARE CONCERNED ABOUT SF/DM RELATIONSHIP AND DOMESTIC INFLATION. END SUMMARY.

1. RECENT CONVERSATIONS BY EMBASSY AND CONGEN ZURICH WITH SWISS BANKERS AND GOVERNMENT AND SWISS NATIONAL BANK (SNB) OFFICIALS INDICATE THAT THEY WELCOME AND HAD EXPECTED RECENT STRENGTHENING OF DOLLAR. FACT THAT DOLLAR HAD SURVIVED MIDDLE EASTERN WAR AND OTHER NEGATIVE ELEMENTS WITHOUT WEAKENING AFFORDED OPPORTUNITY FOR SURGE UPWARD WHEN SEPTEMBER TRADE FIGURES BECAME KNOWN. MOST OF OUR CONTACTS EXPECT FURTHER DOLLAR APPRECIATION TO
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SF 3.20/3.25 RANGE AND ONE BANKER WITH CLOSE CONNECTIONS WITH US

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ECONOMY PREDICTS SF 3.40/3.50 RATE WITHIN 12 MONTHS. FORWARD DISCOUNTS NARROWED SHARPLY BEGINNING OCT 31 ALTHOUGH WIDENED SLIGHTLY NOV 5. DOLLAR STRENGTH WAS PARTICULARLY IMPRESSIVE AT END OF OCTOBER IN FACE USUAL MONTH END DEMAND FOR SWISS FRANCS AND DECISION SNB NOT TO PROVIDE USUAL SWAP ASSISTANCE TO COMMERCIAL BANKS FOR WINDOW DRESSING OPERATIONS.

2. SWISS HAVE, HOWEVER, BEEN CONCERNED RE SWISS FRANC/ DEUTSCH MARK RELATIONSHIP, BELIEVING THAT 1.25/1.27 RATE CONSIDERABLY OUT OF LINE. SWISS FRANC HAS DEPRECIATED SOME 10 PERCENT AGAINST DM SINCE SPRING. WHILE SNB HAS APPARENTLY NOT INTERVENED DIRECT-LY (AND SNB OFFICIAL DENIED TO EMBOFF NOV7 THAT BANK HAD SOLD DOLLARS), SEVERAL MEASURES TAKEN NOV 2 DESIGNED SLOW DOWN SF DEPRECIATION AGAINST DM AND DOLLAR. MEASURES INCLUDE 25 PERCENT INCREASE IN MINIMUM RESERVE REQUIREMENTS ON FOREIGN CURRENCY ACCOUNTS (BERN A-441) WHICH ESTIMATED REQUIRE REPATRIATION SOME SF 300 MILLION FROM ABOARD BY END NOVEMBER. IN ADDITION, ONLY TWO SWISS FRANC FOREIGN BOND ISSUES PER MONTH WILL BE ALLOWED WITH CEILING SF 80 MILLION. TEN PERCENT OF BOND PROCEEDS AND OTHER CAPITAL EXPORTS REQUIRING APPROVAL MUST IN FUTURE BE CONVERTED THROUGH SNB RATHER THAN FREE MARKET.

3. CONCERN RE SF/DM RELATIONSHIP PRIMARILY RELATES TO FACT THAT GERMANY IS SWITZERLAND'S MAIN TRADING PARTNER AND THAT SWITZER-LAND IS CURRENTLY CONFRONTED WITH ACCELERATING INFLATION. CONSUMER PRICE INDEX FOR OCTOBER UP 2.1 PERCENT OVER SEPTEMBER AND 9.5 PERCENT OVER YEAR EARLIER, AND WHOLESALE INDEX UP 12.8 PERCENT. GOVERNMENT SPOKESMAN POINTED OUT, HOWEVER, THAT IF HEATING OIL EXCLUDED FROM CONSUMER PRICE INDEX CALCULATIONS, INCREASE OVER OCTOBER 1972 WOULD HAVE ONLY BEEN 6.6 PERCENT INSTEAD OF 9.5 PERCENT. GOXABILITY TAKE FURTHER ACTIONS ON PRICE/WAGE FRONT SOMEWHAT LIMITED BY NEED FOR DECEMBER 1972 EMERGENCY MEASURES BE APPROVED BY POPULAR REFERENDUM ON DEC 2. (SEE ALSO BERN A-440, SEMI-ANNUAL ECONOMIC TRENDS REPORT, FOR DETAILED DISCUSSION SWISS ECONOMIC PROSPECTS.)

4. SWISS VIEW CURRENT OIL CRISIS AS STIMULATING SIGNIFICANT PRICE INCREASES AND IN CONVERSATIONS TEND EMPHASIZE INFLATIONARY IMPACT MORE THAN POTENTIAL SHORTAGES. THEY RECOGNIZE THAT EUROPE MORE THAN US DIRECTLY AFFECTED BY OIL SITUATION IN SHORT-RUN,
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THEREBY PROVIDING ANOTHER REASON FOR WEAKNESS EUROPEAN CURRENCIES AND DOLLAR STRENGTH. SNB SOURCE TOLD EMBOFF RECENTLY THERE "CONSIDERABLE EVIDENCE" THAT ARABS HAD MOVED BACK FROM STERLING INTO DOLLARS.
DAVIS

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NNN

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